Basics of Economics

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Indian Economy

Macroeconomics

- Focused on the action of govt./ countries take to influence broader economies
- GDP, NI, Inflation
- Father: J. M. Keynes (England)

Microeconomics

- Focused with the action of individuals/ businesses
- Individuals, firm
- Father: Adam Smith → "The wealth of nation"

Demand and Supply

Classifications

3 types of economic systems

1. Capitalist
2. Socialist
3. Mixed

	Capatalist (Govt. has no share holding)	Socialist (private has no ownership)	Mixed (Both eg: India)
Ownership	Private ownership	Public ownership	Public+Private
Economic motive	Profit	Social welfare	Both
Govt. role	No role	Complete involvement	Limited role
Income distribution	Unequal	Equal	Less unequal
Economic freedom	Complete	Lack of freedom	Limited freedom
	eg: USA	eg: USSR, North Korea	eg: India

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1991: Licence Raj

↓ → LPG

Balance of payment

- Disinvestment: Govt. sell it's shareholdings

Sectors of Economy

- Backbone of Indian Economy: Agriculture

1. Primary
2. Secondary
3. Tertiary

Primary Sector

- Directly dependent on environment, also called agriculture sector
- In India primary sector seen mostly in agriculture

Activities:

- Agriculture
- Fishing
- Hunting and gathering
- Forestry
- Mining

red collar jobs

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Ghar se bahar nikalna padega to perform such jobs

- All sectors are interlinked

Secondary Sector

- Also called manufacturing sector
- These add value to natural resources by transforming raw materials into valuable products

Activities:

- Manufacturing

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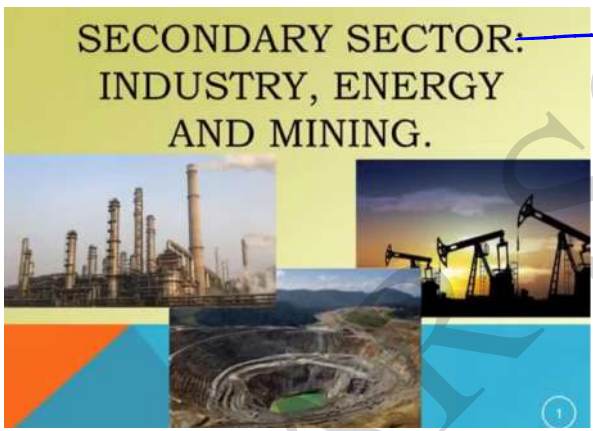
- Processing
- Building/Construction work

Blue collar jobs, not developed in India properly, we have leaped to tertiary sector directly

- Secondary sector is called backbone of a country, helps in industrialisation of a country
  eg: China



24-25%

Tertiary Sector

- Also known as service sector
- It is that part of economy where business produce services
  eg: teaching, transport, advertising, retail
- It is always intangible in nature

  ↓

  which cannot be touched

- Tangible: that which can be touched

- Also, known as White collar jobs

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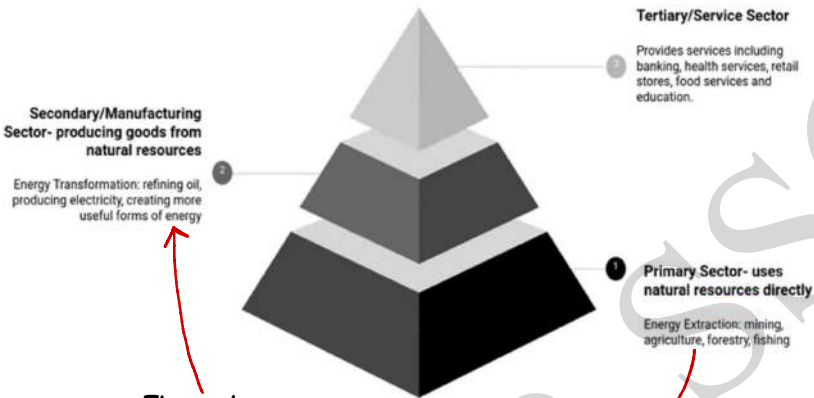
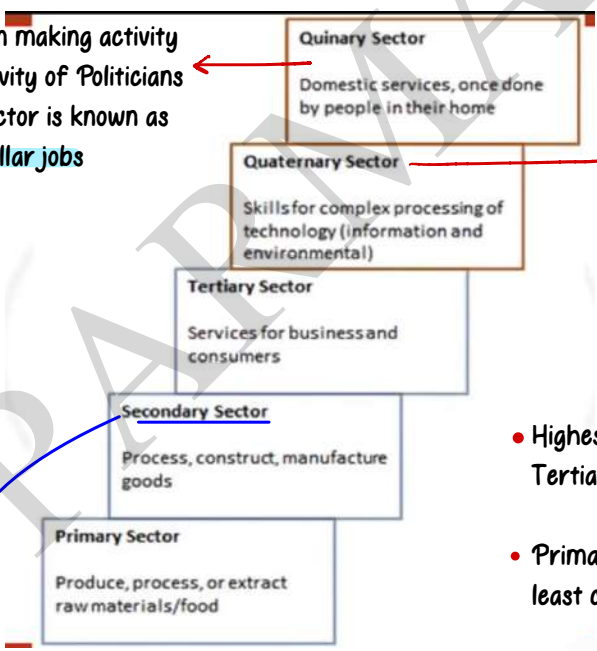

Tertiary/Service Sector
Provides services including banking, health services, retail stores, food services and education.
Secondary/Manufacturing Sector- producing goods from natural resources
Energy Transformation: refining oil, producing electricity, creating more useful forms of energy
Primary Sector- uses natural resources directly
Energy Extraction: mining, agriculture, forestry, fishing
Thermal energy
Coal


Quinary Sector
Domestic services, once done by people in their home
Quaternary Sector
Skills for complex processing of technology (information and environmental)
Tertiary Sector
Services for business and consumers
Secondary Sector
Process, construct, manufacture goods
Primary Sector
Produce, process, or extract raw materials/food

Decision making activity
eg: Activity of Politicians
This sector is known as
Gold collar jobs

Scientists that are highly qualified
Also known as knowledge sector
eg: Senior business executive

GDP contribution: 31.46%

- Highest contribution in our economy: Tertiary sector (India+other countries)
- Primary sector employs more no. of people, least contribution in GDP (14.39%)
- Least no of people employed in Tertiary sector and contributes most in GDP (54.15%)

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1. Which of the given sectors is largely driven by considerations of social welfare ?
दिए गए क्षेत्रों में से कौन सा क्षेत्र बड़े पैमाने पर सामाजिक कल्याण के विचारों से प्रेरित है?
SSC CGL 01/12/2022 (2nd Shift)

(a) Foreign (a) विदेश
(b) Public (b) जनता
(c) Co-operative (c) सहकारी
(d) Private (d) निजी

2. Which of the following is a feature of public goods?
निम्नलिखित में से कौन सा सार्वजनिक वस्तुओं की एक विशेषता है?
SSC CGL 05/12/2022 (4th Shift)

(a) These goods are more competitive. (a) ये सामान अधिक प्रतिस्पर्धी हैं.
(b) These goods are limited in supply. (b) इन वस्तुओं की आपूर्ति सीमित है।
(c) Consumption of one person does not affect the consumption of another person. (c) एक व्यक्ति के उपभोग से दूसरे व्यक्ति के उपभोग पर कोई प्रभाव नहीं पड़ता।
(d) Only taxpayers can get the benefit of public goods. (d) सार्वजनिक वस्तुओं का लाभ केवल करदाताओं को ही मिल सकता है।

competition in goods making

6. Aid or auxiliary to trade includes which of the following?
व्यापार में सहायता या सहायता में निम्नलिखित में से क्या शामिल है?
SSC CGL 09/12/2022 (1st Shift)

(a) Production (a) उत्पादन
(b) Selling (b) बेचना
(c) Buying (c) क्रय करना
(d) Warehousing (d) भंडारण

Transport
Banking
Advertisement

Facilitates trade

9. Which of the following is NOT an aid or auxiliary to trade?
निम्नलिखित में से कौन सा व्यापार के लिए सहायक या सहायक नहीं है?
SSC CGL 03/12/2022 (3rd Shift)

(a) Hoarding (a) जमाखोरी
(b) Warehousing (b) भंडारण
(c) Insurance (c) बीमा
(d) Transportation (d) परिवहन

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9. Which of the following is NOT an aid or auxiliary to trade?
निम्नलिखित में से कौन सा व्यापार के लिए सहायक या सहायक नहीं है?
SSC CGL 03/12/2022 (3rd Shift)

(a) Hoarding (a) जमाखोरी
(b) Warehousing (b) भंडारण
(c) Insurance (c) बीमा
(d) Transportation (d) परिवहन

11. The tertiary sector of the Indian Economy is related to _____.
भारतीय अर्थव्यवस्था का तृतीयक क्षेत्र _____ से संबंधित है।
SSC MTS 22/07/2022 (Morning)

a) manufacturing sector
b) agriculture and related sectors
c) electricity and coal
d) transport, communication and business/services

a) निर्माण क्षेत्र
b) कृषि और संबंधित क्षेत्र
c) बिजली और कोयला
d) परिवहन, संचार और व्यवसाय/सेवाएँ

13. In an economy, fisheries are a part of _____.
एक अर्थव्यवस्था में, मत्स्य पालन _____ का एक हिस्सा है।
SSC CHSL 06/06/2022 (Evening)

(a) tertiary sector
(b) secondary sector
(c) either secondary or tertiary sector
(d) primary sector

(a) तृतीय श्रेणी का उद्योग
(b) द्वितीयक क्षेत्र
(c) या तो द्वितीयक या तृतीयक क्षेत्र
(d) प्राइमरी सेक्टर

15. What is the emigration of a significant proportion of a country's highly skilled, highly educated professional population to other countries offering better economic and social opportunities called?
किसी देश की अत्यधिक कुशल, उच्च शिक्षित पेशेवर आबादी के एक महत्वपूर्ण अनुपात का बेहतर आर्थिक और सामाजिक अवसर प्रदान करने वाले अन्य देशों में प्रवास को क्या कहा जाता है?
SSC CGL 12/04/2022 (Afternoon)

(a) Carrying capacity (a) वहन क्षमता
(b) Brain drain (b) प्रतिभा पलायन
(c) Demographic transition (c) जनसांख्यकीय संक्रमण
(d) Closed population (d) बंद आबादी

17. In the context of Economics, what does P stand for in EPF?
अर्थशास्त्र के संदर्भ में, ईपीएफ में P का क्या मतलब है?
SSC MTS 12/10/2021 (Afternoon)

(a) Planning (a) योजना
(b) Promotion (b) पदोन्नति
(c) Profit (c) लाभ
(d) Provident (d) चौकस

Employees' Provident Fund

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18. Which of the following is NOT important for individual health?

निम्नलिखित में से कौन सा व्यक्तिगत स्वास्थ्य के लिए महत्वपूर्ण नहीं है?

SSC MTS 18/10/2021 (Morning)

(a) Social equality — (a) सामाजिक समानता
(b) Public cleanliness — (b) सार्वजनिक स्वच्छता
(c) Harmony — (c) सद्भाव
(d) Public transport — (d) सार्वजनिक परिवहन

20. Which branch of economics deals with the depletion of natural resources stock and pollution, which are a result of rapid economic development?

अर्थशास्त्र की कौन सी शाखा प्राकृतिक संसाधनों के भंडार की कमी और प्रदूषण से संबंधित है, जो तीव्र आर्थिक विकास का परिणाम है?

SSC CGL 23/08/2021 (Afternoon)

(a) Environmental Economics
(b) Developmental Economics
(c) International Economics
(d) Public Economics

21. An economy in which both the private sector and the government are involved is known as a/an _____ economy.

एक अर्थव्यवस्था जिसमें निजी क्षेत्र और सरकार दोनों शामिल होते हैं उसे _____ अर्थव्यवस्था के रूप में जाना जाता है।

SSC CGL 24/08/2021 (Morning)

(a) mixed — (a) मिश्रित
(b) blended — (b) मिति
(c) parallel — (c) समानांतर
(d) amalgam — (d) मिश्रण

22. All monetary transfers or kinds sent by migrants to their place of origin are called _____.

प्रवासियों द्वारा उनके मूल स्थान पर भेजे गए सभी मौद्रिक हस्तांतरण या प्रकार को _____ कहा जाता है।

SSC CGL 24/08/2021 (Evening)

(a) drafts — (a) ड्राफ्ट
(b) bills — (b) बिल
(c) remittances — (c) प्रेषण
(d) payments — (d) भुगतान

India is no. 1

23. People like small farmers and seasonal workers who regularly move in and out of poverty are categorized as _____.

Season based employment

छोटे किसान और मौसमी श्रमिक जैसे लोग जो नियमित रूप से गरीबी से बाहर आते और जाते हैं, उन्हें _____ के रूप में वर्गीकृत किया गया है।

SSC CPO 24/11/2020 (Evening)

(a) occasionally poor — (a) कभी-कभी गरीब
(b) churning poor — (b) गरीबों का मंथन
(c) always poor — (c) हमेशा गरीब
(d) usually poor — (d) आमतौर पर गरीब

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24. An unexpected rise in sales of a product leads to _____ .

किसी उत्पाद की बिक्री में अप्रत्याशित वृद्धि _____ की ओर ले जाती है।

SSC CPO 25/11/2020 (Evening)

(a) Planned accumulation of inventory
(b) Planned decumulation of inventory
(c) Unplanned decumulation of inventory
(d) Unplanned accumulation of inventory

(a) इन्वेंट्री का नियोजित संचय
(b) इन्वेंट्री का नियोजित क्षय
(c) इन्वेंट्री का अनियोजित क्षय
(d) इन्वेंट्री का अनियोजित संचय

25. Which of the following activities can be classified as a part of the secondary sector of an Economy?

निम्नलिखित में से किस गतिविधि को अर्थव्यवस्था के द्वितीयक क्षेत्र के एक भाग के रूप में वर्गीकृत किया जा सकता है?

SSC CHSL 18/03/2020 (Afternoon)

(a) Legal consulting
(b) Tea plantation
(c) Farm equipment manufacturing
(d) Banking

(a) कानूनी परामर्श
(b) चाय उगाना
(c) कृषि उपकरण निर्माण
(d) बैंकिंग

26. The mixed economy is :

मिश्रित अर्थव्यवस्था है:

SSC CHSL 19/03/2020 (Morning)

(a) presence of subsistence and commercial farming
(b) coexistence of traditional and modern industries
(c) a market system of resource allocation, commerce, and trade in which free markets coexist with government intervention
(d) presence of domestic and foreign investments

(a) निर्वाह और व्यावसायिक खेती की उपस्थिति
(b) पारंपरिक और आधुनिक उद्योगों का सह-अस्तित्व
(c) संसाधन आवंटन, वाणिज्य और व्यापार की एक बाजार प्रणाली जिसमें मुक्त बाजार सरकारी हस्तक्षेप के साथ सह-अस्तित्व में हैं
(d) घरेलू और विदेशी निवेश की उपस्थिति

27. Which of the following is an goods or goods and economic system in which capital are owned by private individuals businesses and the production of and services is based on supply demand in the general market?

निम्नलिखित में से कौन सी एक वस्तु या माल और आर्थिक प्रणाली है जिसमें पूंजी का स्वामित्व निजी व्यक्तियों के व्यवसायों के पास होता है और सेवाओं का उत्पादन और सेवाएं सामान्य बाजार में आपूर्ति मांग पर आधारित होती हैं?

SSC CHSL 14/10/2020 (Morning)

(a) Mixed Economy
(b) Capitalistic Economy
(c) State Economy
(d) Communist Economy

(a) मिश्रित अर्थव्यवस्था
(b) पूंजीवादी अर्थव्यवस्था
(c) राज्य की अर्थव्यवस्था
(d) साम्यवादी अर्थव्यवस्था

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28. Which of the following is a tertiary economic activity?
निम्नलिखित में से कौन सी तृतीयक आर्थिक गतिविधि है?
SSC CHSL 14/10/2020 (Afternoon)

(a) Farming — (a) खेती
(b) Trading — (b) व्यापार
(c) Hunting — (c) शिकार करना
(d) Weaving — (d) बुनाई

29. An industrial economy is best defined as an economy whose 50% or more produce value comes from the _____ sector.
एक औद्योगिक अर्थव्यवस्था को सबसे अच्छी तरह से एक ऐसी अर्थव्यवस्था के रूप में परिभाषित किया जाता है जिसका 50% या अधिक उत्पादन मूल्य _____ क्षेत्र से आता है।
SSC CHSL 14/10/2020 (Evening)

(a) banking — (a) बैंकिंग
(b) tertiary — (b) तृतीयक
(c) secondary — (c) माध्यमिक
(d) primary — (d) प्राथमिक

30. 'Income and employment theory' is the other name for which branch of Economics?
'आय एवं रोजगार सिद्धांत' अर्थशास्त्र की किस शाखा का दूसरा नाम है?
SSC CHSL 16/10/2020 (Afternoon)

(a) International economics — (a) अंतरराष्ट्रीय अर्थशास्त्र
(b) Public finance — (b) सार्वजनिक वित्त
(c) Microeconomics — (c) व्यष्टि अर्थशास्त्र
(d) Macroeconomics — (d) समष्टि अर्थशास्त्र

31. _____ is defined as the study of behavior of individual decision-making units, such as consumers, resource owners and firms.
_____ को उपभोक्ताओं, संसाधन मालिकों और फर्मों जैसी व्यक्तिगत निर्णय लेने वाली इकाइयों के व्यवहार के अध्ययन के रूप में परिभाषित किया गया है।
SSC CHSL 09/10/2020 (Morning)

(a) Microeconomics — (a) व्यष्टि अर्थशास्त्र
(b) Macroeconomics — (b) समष्टि अर्थशास्त्र
(c) Health economics — (c) स्वास्थ्य अर्थशास्त्र
(d) Econometrics — (d) अर्थमिति

32. The concepts of wages, rent, interest and profit are studied under which branch of Economics?
मजदूरी, किराया, ब्याज और लाभ की अवधारणाओं का अध्ययन अर्थशास्त्र की किस शाखा के अंतर्गत किया जाता है?
SSC CHSL 19/10/2020 (Evening)

(a) Macroeconomics — (a) समष्टि अर्थशास्त्र
(b) Microeconomics — (b) व्यष्टि अर्थशास्त्र
(c) Econometrics — (c) अर्थमिति
(d) Health economics — (d) स्वास्थ्य अर्थशास्त्र

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33. In _____ economies, all productive resources are owned and controlled by the government.

_____ अर्थव्यवस्थाओं में, सभी उत्पादक संसाधनों का स्वामित्व और नियंत्रण सरकार के पास होता है।

SSC CGL 03/3/2020 (Evening)

(a) dual (a) दोहरी
(b) mixed (b) मिश्रित
(c) capitalist (c) पूंजीवादी
(d) socialist (d) समाजवादी

34. John Maynard Keynes, best known for his economic theories (Keynesian theories), hailed from which country?

जॉन मेनार्ड कीन्स, जो अपने आर्थिक सिद्धांतों (कीनेसियन सिद्धांतों) के लिए जाने जाते हैं, किस देश से थे?

SSC CGL 04/3/2020 (afternoon)

(a) Sweden
(b) Denmark
(c) Australia
(d) England

36. Which Economist developed international trade theory in 1817 based on comparative advantage and specialization ?

1817 में किस अर्थशास्त्री ने तुलनात्मक लाभ और विशेषज्ञता के आधार पर अंतर्राष्ट्रीय व्यापार सिद्धांत विकसित किया?

SSC CPO 09/12/2019 (Morning)

(a) Paul Krugman
(b) Gary Becker
(c) Milton Friedman
(d) David Ricardo

37. Which of the following activities is also referred to as 'Gold Collar' profession?

निम्नलिखित में से किस गतिविधि को 'गोल्ड कॉलर' पेशे के रूप में भी जाना जाता है?

SSC CPO 11/12/2019 (Evening)

(a) Secondary (a) माध्यमिक
(b) Quaternary (b) चारों भागों का
(c) Primary (c) प्राथमिक
(d) Quinary (d) पाँच का

decision making

39. Which of the following is working capital in the farming sector?

निम्नलिखित में से कौन कृषि क्षेत्र में कार्यशील पूंजी है?

SSC CPO 13/12/2019 (Morning)

(a) threshing machine (a) कटाई की मशीन
(b) money (b) धन
(c) tractor (c) ट्रैक्टर
(d) land (d) भूमि

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39. Which of the following is working capital in the farming sector?
निम्नलिखित में से कौन कृषि क्षेत्र में कार्यशील पूंजी है?

SSC CPO 13/12/2019 (Morning)

(a) threshing machine
(b) money
(c) tractor
(d) land

(a) कटाई की मशीन
(b) धन
(c) ट्रैक्टर
(d) भूमि

40. Which of the following is NOT a primary activity?
निम्नलिखित में से कौन सी प्राथमिक गतिविधि नहीं है?

SSC MTS 07/08/2019 (Evening)

(a) Agriculture
(b) Construction
(c) Mining
(d) Fishing

(a) कृषि
(b) निर्माण
(c) खुदाई
(d) मछली पकड़ने

41. Based on economic activities , how are there in Indian many sectors are economy?
आर्थिक गतिविधियों के आधार पर भारतीय अर्थव्यवस्था में कितने क्षेत्र हैं?

SSC MTS 08/08/2019 (Morning)

(a) 4
(b) 3
(c) 2
(d) 5

42. What should be the investment of Micro enterprises in plant & machinery (Manufacturing Sector)?
संयंत्र एवं मशीनरी (विनिर्माण क्षेत्र) में सूक्ष्म उद्यमों का निवेश कितना होना चाहिए?

SSC MTS 09/08/2019 (Afternoon)

(a) Between twenty five lakh and fifty lakh
(b) More than fifty lakh
(c) Not more than twenty five lakh
(d) More than twenty five lakh

(a) पच्चीस लाख से पचास लाख के बीच
(b) पचास लाख से भी ज्यादा
(c) पच्चीस लाख से ज्यादा नहीं
(d) पच्चीस लाख से भी ज्यादा

43. Which of the following is NOT a capital good?
निम्नलिखित में से कौन सा पूंजीगत वस्तु नहीं है?

SSC MTS 14/08/2019 (Morning)

(a) Food and Clothing
(b) Tools
(c) Machine
(d) Truck

(a) भोजन और वस्त्र
(b) औजार
(c) मशीन
(d) ट्रक

PARMAR SSC

44. Which of the following economic activities employs the maximum number of people in india?
निम्नलिखित में से कौन सी आर्थिक गतिविधि भारत में अधिकतम लोगों को रोजगार देती है?
SSC CGL 04/06/2019 (Evening)

(a) Tourism (a) पर्यटन
(b) Agriculture (b) कृषि
(c) Manufacturing (c) उत्पादन
(d) Mining (d) खुदाई

45. Which of the following come under the Quaternary sector?
निम्नलिखित में से कौन-सा चतुर्धातुक क्षेत्र के अंतर्गत आता है?
SSC CGL 06/06/2019 (Morning)

(a) IT (a) आई.टी.
(b) Manufacturing (b) उत्पादन
(c) Mining (c) खुदाई
(d) Fisheries (d) मछली पालन

46. The National Board for Micro, Small and Medium Enterprises meets once every ___ months in a year.
राष्ट्रीय सूक्ष्म, लघु और मध्यम उद्यम बोर्ड की साल में हर ___ महीने में एक बार बैठक होती है।
SSC CGL 06/06/2019 (Evening)

(a) 2
(b) 6
(c) 3
(d) 9

	Investment	Turnover
Micro	Less than Rs 1 Cr	Less than Rs 5 Cr
Small	Less than Rs 10 Cr	Less than Rs 50 Cr
Medium	Less than Rs 20 Cr	Less than Rs 100 Cr

47. The Micro, Small and Medium Development Act was Enterprises passed in the year _____ .
सूक्ष्म, लघु और मध्यम विकास अधिनियम उद्यम वर्ष _____ में पारित किया गया था।
SSC CGL 13/06/2019 (Evening)

(a) 2006
(b) 2004
(c) 2008
(d) 2002

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- Stock: variables is measured over a specific period of time
  eg: Inventory, cash, machinery, tools

- Flow: variable is measured over a defined period of time
  eg: expenditure, savings, depreciation

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National Income: the total of money earned within a country

- Intercountry: growth within various countries such as India, US, China, etc.
- Intercountry: within the country what is growth in comparison to previous year

Measures and Aggregates of NI

GDP GNP NDP NNP

- GDP: Gross Domestic Product
  Total value of all final goods and services produced within the territory of a country

- GNP: Gross National Product
  Total value of all final goods and services produced by the nationals of the country
  - GNP = GDP – Factor Income to Abroad + FI from Abroad
  - GNP = GDP + Net factor income from abroad

- NDP: Net Domestic Product
  NDP = GDP – Depreciation
  - Monetary value of an asset decreases over time due to various factors

goods and services

factors of production:
- Land
- Labour
- Capital
- Entrepreneurs

- Financial year: 1 April to 31st March

→In GDP second hand goods are never counted

PARMAR SSC

- NNP: Net National Products

  NNP = GNP – Depriciation

- GDP was developed by American Economist "Simon Kuznetsk" in 1934

Real GDP vs Nominal GDP

More than Real GDP due to inflation

- Base year is taken known as Base effect
- Calculated on constant prices
- It is inflation adjusted

- Calculated on current prices
- Inflation not adjusted

Irvin Fisher mentioned it as: Concept of Money Illusion

GDP deflator is used to calculate this = $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

- Methods to calculate GDP

1. Value Added Method
   - Also known as Production Method

   Value added method = Output – Input

2. Income Method
   - Compensation to employees
   - Operating surplus
   - Mixed income

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3. Expenditure Method

$C + G + I + (X - M)$

- C: Consumption
- G: Govt. expenditure
- I: Investment
- X: Export
- M: Import

- Per Capita Income = $\frac{\text{National Income}}{\text{Population}}$

- Purchasing Power Parity = A common basket of goods

India → GDP: 5th in the world

India → PPP: 3rd after USA and China → Economy is inflated

Ranking (according to GDP)
USA
China
Germany
Japan
India

- Personal Income: Total income of an individual earned from all the sources before taxes

  PI = National Income + Income received not earned − Income earned but received

  PI = NI + Transfer payment − Undistributed corporate profit

  → eg: subsidy by govt.

- Personal Disposable Income: PI − tax

GDP Calculation: by National Statistical Office under MOSPL (Ministry of Statistics and Program)

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- $GDP_{FC} = GDP_{MP}$ – Net Indirect Taxes

NNP_{FC}: is also called National Income

- $GDP_{FC} = GDP_{MP}$ – (Indirect tax – Subsidy)
- $GDP_{FC} = GDP_{MP}$ – Indirect tax + Subsidy

- GDP – Depreciation = Net DP
- GDP + NFIA = Gross NP

- Household income is not under GDP

Market Price

The market price is the final value of the product being sold, which includes indirect taxes

Factor Cost

Factor cost is the cost of factors of production, or total value of inputs, where indirect tax is not included

- Green GDP = GDP – Environmental Damage
- Potential GDP – Real GDP = Recessionary Gap

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BUDGET AND TAXATION

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- **Budget**: an approximation of revenue and expenses over a specified period of time

Asset

- A propert owned by a person (Something that economical value)
  Eg: Gold, Property

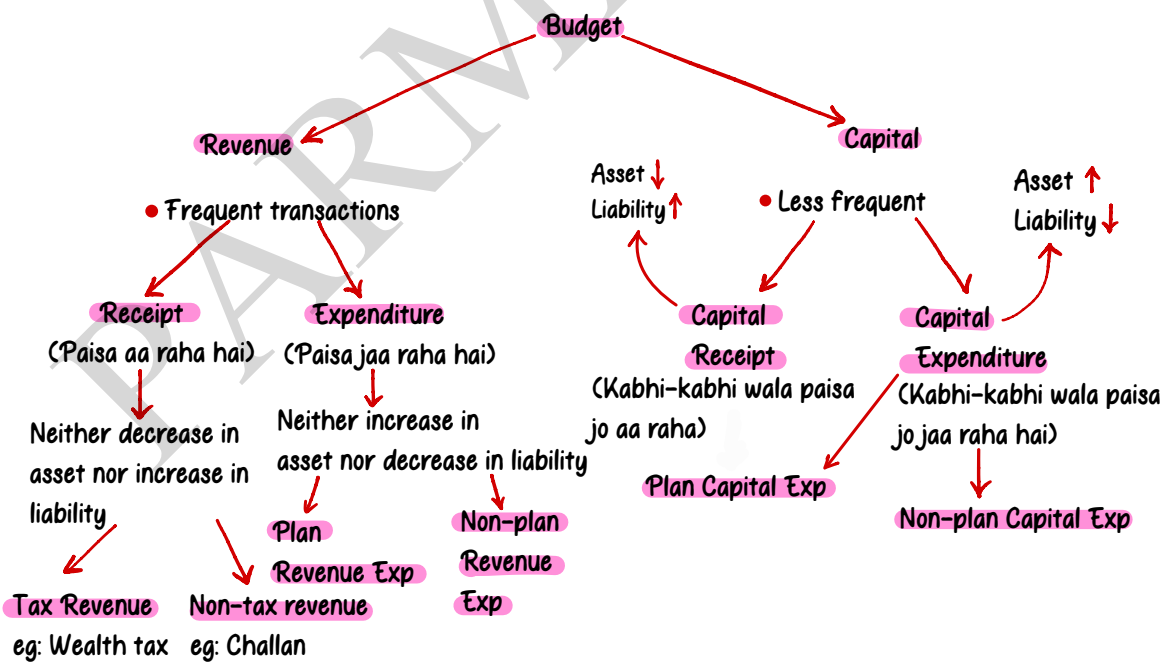
Liability

- Something that someone is responsible for (Debt/obligation)
  Eg: payment of Loan

According to Govt.

Income → Receipt
Expenditure → Expenditure

- Share in profit is called **dividend**



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- **Borrowing** : Liability ↑
- **Disinvestment**: Asset ↓

→ Capital Receipt

- **Entertainment tax**
- **Excise duty**

→ Revenue

Two components of budget

Revenue Expenditure

- Salary/Pension
- Subsidy/Grant
- Interest Payment
- Maintenance of Infrastructure

Capital Expenditure — Road, bridge, etc

- Construction of any infrastructure
- Purchase of land/machinery
- Investment
- Loan
- Repayment of Loan

Budget → Annual Fiscal Statement: Art 112

- **Prepared by**: Department of Economic Affairs (Ministry of Finance)
- **Presented by**: Finance Minister
- **1st budget presented by**: R. K. Shanmukham Chetty
- **2nd budget by**: John Mathai
- **Most no. of budget**:
  1. Morarji Desai (10 times) — In a row 6 times
  2. P Chidambaram (9 times)
  3. Pranab Mukherjee (8 times)

- Loan → Principal amount → Capital
- Interest → Revenue

- At present General Budget and Railway Budget is merged
  - Earlier

1921: Acworth Recommendation Committee (Separate)

- General Budget
- Railway Budget

2016: Bibek Debroy Committee (Amalgamate)

Interim Budget and **Full Time Budget**

↓

Presented on Election Year

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Deficits: loss

- Receipt > Expenditure = Surplus budget
- Expenditure > Receipt = Deficit Budget
- Expenditure = Receipt → Balanced Budget

Types:

1. Budgetary Deficit
2. **Revenue Deficit**: Revenue Expenditure – Revenue Receipt
3. * **Fiscal Deficit:** Total Exp – [Total receipt – dept creating Capital Receipt]

   Or

   Total Exp – [Revenue receipt + Non-debt creating Capital Receipt]

accurate measure of govt. deficit/govt. borrowing

4. * **Primary Deficit:** Fiscal Deficit – Interest Payment
5. **Effective Revenue Deficit**: Revenue Deficit – Grant given for developmental purpose

Taxation System in India

Direct Tax

- Directly payable to Govt.
- It cannot be passed to someone else
- Progressive tax
- eg: Income tax, Wealth tax, Gift tax, capital gain tax
- Corporate tax

Income ↑ → Tax ↑

Marginal tax > Avg. tax rate

Indirect Tax

- Indirectly payable to Govt.
- It can be passed to someone else
- Regressive tax/proportional tax
- eg: GST → Tobacco, alcohol
- Excise duty → Petrol, Diesel, Aviation turbine fuel
- Custom duty

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GST

- 101 CA
- Operational by: 1st July 2017
- Assam was the first state to ratify it
- GST council is a constitutional body: Art 279A
- 33 members (2 from Centre+31 from States/UTs)
- Chairman: Finance Minister

- Surcharge Tax: Tax pe Tax (on rich people)
- Cess Tax: for a definite purpose (charged on everyone) → Levied by Central govt. but not shared by State govt.
- Pigouvian Tax: to lower the negative externalities

1. Which Indian budget introduced a statement highlighting the gender sensitivities of the budgetary allocations?
(SSC CGL 02/12/2022 Afternoon)
किस भारतीय बजट में बजटीय आवंटन की लैंगिक संवेदनशीलता को उजागर करने वाला एक वक्तव्य पेश किया गया?
(a) 2008-09
(b) 2010-11
(c) 2005-06
(d) 2001-02

4. The Annual Financial Statements shows the receipts and payments of the Government in the Form of ____
(SSC MTS 11/07/2022 Evening)
वार्षिक वित्तीय विवरण सरकार की प्राप्तियों और भुगतानों को ____ के रूप में दर्शाता है
(a) Contingency Fund, Public Account, and Capital Projects
(b) Contingency Fund, Public Account, and Consolidated Funds
(c) Public Account and Consolidate Funds
(d) Contingency Fund and Consolidated Funds
a) आकस्मिकता निधि, सार्वजनिक खाता और पूंजीगत परियोजनाएं
b) आकस्मिकता निधि, सार्वजनिक खाता और समेकित निधि
c) सार्वजनिक खाता और समेकित निधि
d) आकस्मिकता निधि और समेकित निधि

6. Which of the following is India's first Paperless Budget?
(SSC CGL 18/04/2022 Morning)
निम्नलिखित में से कौन सा भारत का पहला पेपरलेस बजट है?
(a) Union Budget 2018-19
(b) Union Budget 2020-21
(c) Union Budget 2019-20
(d) Union Budget 2021-22
a) केंद्रीय बजट 2018-19
b) केंद्रीय बजट 2020-21
c) केंद्रीय बजट 2019-20
d) केंद्रीय बजट 2021-22

PARMAR SSC

11. Who among the following publishes the Economic Survey of India? (SSC CGL 03/03/2020 Evening)

निम्नलिखित में से कौन भारत का आर्थिक सर्वेक्षण प्रकाशित करता है?

(a) Ministry of Finance
(b) Indian Statistical Institute
(c) National Development Council
(d) Institute of Finance

a) वित मंत्रित्व
b) भारतीय सांख्यिकी संस्थान
c) राष्ट्रीय विकास परिषद
d) वित संस्थान

Published 1 week before the budget roughly in the month of January or February

12. Gross Primary deficit is the difference between____. (SSC CGL 01/12/2022 Evening)

सकल प्राथमिक घाटा ____ के बीच का अंतर है।

(a) Revenue deficit and interests receipts
(b) Gross fiscal deficit and interests receipts
(c) Revenue deficit and interest payments
(d) Gross fiscal deficit and net interest liabilities

a) राजस्व घाटा और ब्याज प्राप्तियाँ
b) सकल राजकोषीय घाटा और ब्याज प्राप्तियाँ
c) राजस्व घाटा और ब्याज भुगतान
d) सकल राजकोषीय घाटा और शुद्ध ब्याज देनदारियाँ

14. Which of the following functions of government budget is associated with distribution of income? (SSC CGL 07/12/2022 Evening)

I. Allocation Function
II. Redistribution function

सरकारी बजट का निम्नलिखित में से कौन सा कार्य आय के वितरण से जुड़ा है?

I. आवंटन समारोह
II. पुनर्वितरण समारोह

(a) Only I
(b) Neither I nor II
(c) Only II
(d) Both I and II

a) केवल I
b) न तो I और न ही II
c) केवल II
d) I और II दोनों

21. Which type of tax acts as an automatic stabilizer in the economy ? (SSC CGL 09/12/2022 Evening)

किस प्रकार का कर अर्थव्यवस्था में स्वचालित स्थिरता का कार्य करता है?

a) Professional Tax
b) Wealth Tax
c) Capital Gains tax
d) Proportional income tax

a) वृत्ति कर
b) धन कर
c) पूंजीगत लाभ कर
d) आनुपातिक आयकर

Progressive

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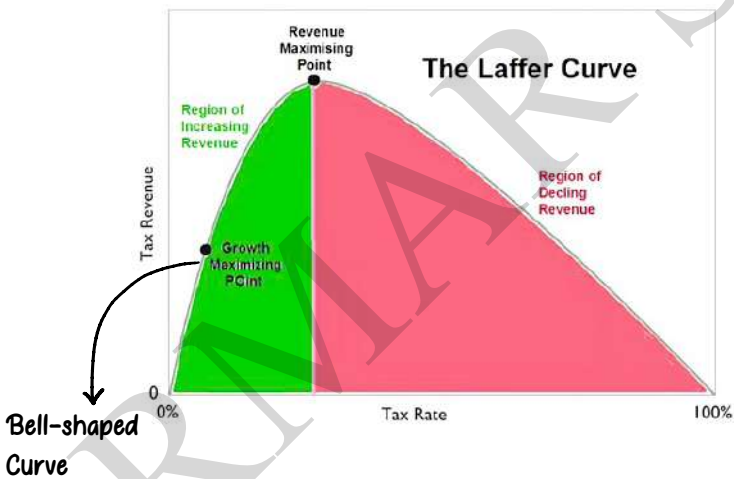
23. The tax imposed on goods imported into and exported out of India is called_____ (SSC MTS 22/07/2022 Afternoon)

भारत में आयातित और बाहर निर्यात की जाने वाली वस्तुओं पर लगाया जाने वाला कर _____ कहलाता है

(a) Corporation Tax
(b) Exercise Tax
(c) Capital gain Tax
(d) Custom Duty

a) निगम कर
b) व्यायाम कर
c) पूंजी लाभ कर
d) कस्टम ड्यूटी

Laffers Curve



Bell-shaped Curve

25. Ronald Reagan, the 40th President of the US, signed the largest tax cut in the history of their country in 1981. Which economic theory was this policy centered around? (SSC MTS 06/10/2021 Evening)

अमेरिका के 40वें राष्ट्रपति रोनाल्ड रीगन ने 1981 में अपने देश के इतिहास में सबसे बड़ी कर कटौती पर हस्ताक्षर किए। यह नीति किस आर्थिक सिद्धांत पर केंद्रित थी?

(a) Laffer Curve
(b) Lorenz Curve
(c) Kuznets Curve
(d) Sweezy's Kinked Demand Curve

a) लाफ़र वक्र
b) लोरेन्ज़ वक्र
c) कुज़नेट्स वक्र
d) स्वीज़ी का किंक्ड डिमांड कर्व

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26. In which year was the value added tax introduced in India?
(SSC CGL 08/10/2021 Afternoon)
भारत में मूल्य वर्धित कर किस वर्ष लागू किया गया था?

(a) 2007
(b) 2005
(c) 2002
(d) 2010

27. Which of the following may be classified as a "Pigouvian Tax?
(SSC CPO 12/12/2019 Evening)
निम्नलिखित में से किसे "पिगोवियन टैक्स" के रूप में वर्गीकृत किया जा सकता है?

(a) Long Term Capital Gain tax
(b) Corporate Tax
(c) Carbon Tax
(d) Income Tax

a) लॉन्ग टर्म कैपिटल गेन टैक्स
b) निगमित कर
c) कार्बन टैक्स
d) आयकर

29. _____ is a type of direct tax which is levied at the time of sale purchase of securities through the Indian Stock Exchanges.
(SSC CGL 13/06/2019 Morning)
_____ एक प्रकार का प्रत्यक्ष कर है जो भारतीय स्टॉक एक्सचेंजों के माध्यम से प्रतिभूतियों की बिक्री खरीद के समय लगाया जाता है।

(a) Stamp Duty
(b) Shares And Securities Tax
(c) Stamp And Securities Tax
(d) Securities Transaction Tax

a) स्टाम्प शुल्क
b) शेयर और प्रतिभूति कर
c) स्टाम्प एवं प्रतिभूति कर
d) प्रतिभूति लेनदेन कर

SEBI

30. Which among the following indirect taxes is charged by the Central Government? (SSC MTS 22/08/2019 Morning)
निम्नलिखित में से कौन सा अप्रत्यक्ष कर केंद्र सरकार द्वारा लगाया जाता है?

(a) Service Tax
(b) Luxury Tax
(c) Purchase Tax
(d) Taxes on Lottery

a) सेवा कर
b) लक्जरी टैक्स
c) खरीद कर
d) लॉटरी पर कर

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31. What is the full form of GSTIN in relation to GST? (SSC CHSL 02/07/2019 Morning)

जीएसटी के संबंध में जीएसटीआईएन का पूर्ण रूप क्या है?

(a) Goods and Services Tax Identification Note
(b) Goods and Services Tax Identification Number ✓
(c) Goods and Services Tax Information Number
(d) Goods and Service Taxation Income Number

a) वस्तु एवं सेवा कर पहचान नोट
b) वस्तु एवं सेवा कर पहचान संख्या
c) वस्तु एवं सेवा कर सूचना संख्या
d) वस्तु एवं सेवा कराधान आय संख्या

32. In which year was the Central Board of Revenue Act in India promulgated. (SSC CHSL 03/07/2019 Morning)

भारत में केंद्रीय राजस्व बोर्ड अधिनियम किस वर्ष प्रख्यापित किया गया था?

(a) 1983
(b) 1963 ✓
(c) 1973
(d) 1953

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DEMAND AND SUPPLY INFLATION

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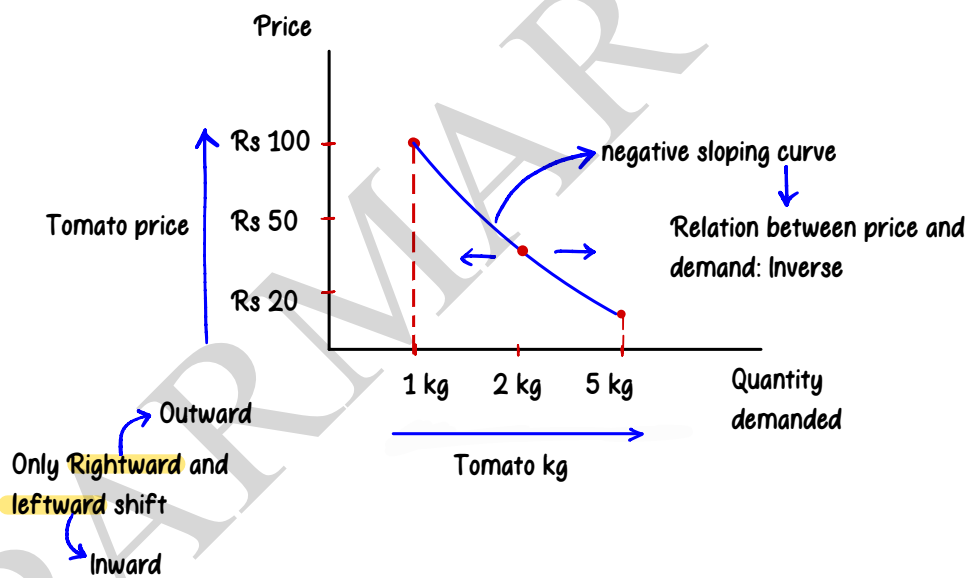
- Demand and Supply

- Demand → Satisfaction → Utility
  - Eagerness to buy something
  - Affordibility

- Marginal Utility: the addition satisfaction or benefit that a consumer derived from buying an additional unit of a commodity/service

- Demand Curve: Consumer's side → Affordability



- Other factors are constant
  eg: Income

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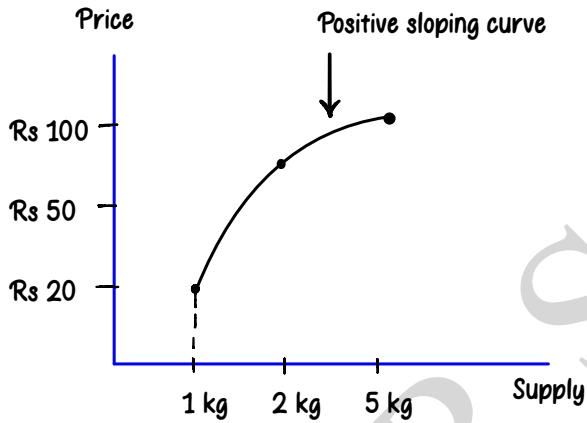
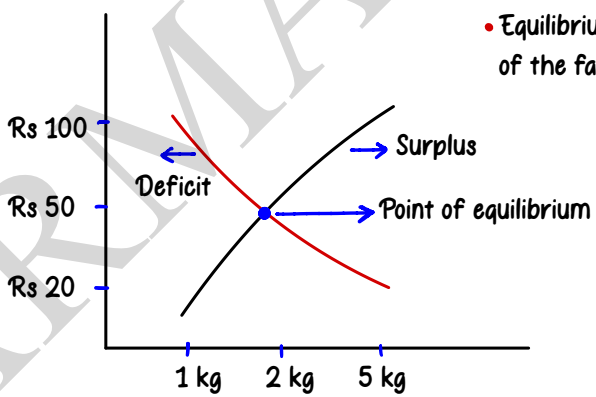
- **Supply Curve:** from producer's side/profitability



- Things exists in equilibrium



- Equilibrium shifts if any one of the factors shift

- **Exceptions**
- **Giffen goods:** non-luxurious goods
  eg: increase in price of wheat
- **Veblen goods:** luxurious goods
  eg: iPhone, Mercedes

- price $\propto$ demand

Demand is perfectly inelastic

PARMAR SSC

- **Price Elasticity**

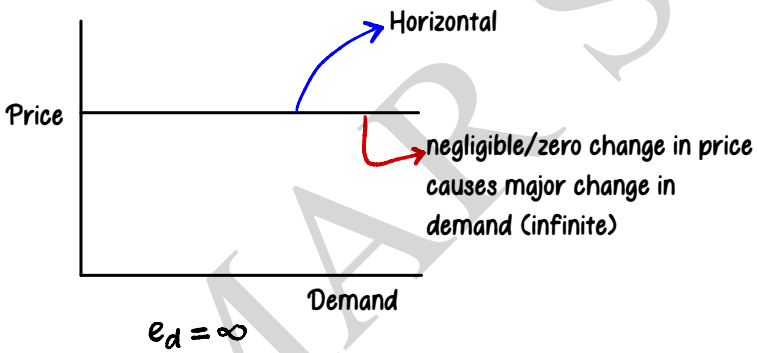
Changes in price affect the changes in demand

↑

Usually -ve

$$e_d = \frac{\%\text{ change in demand}}{\%\text{ change in price}}$$

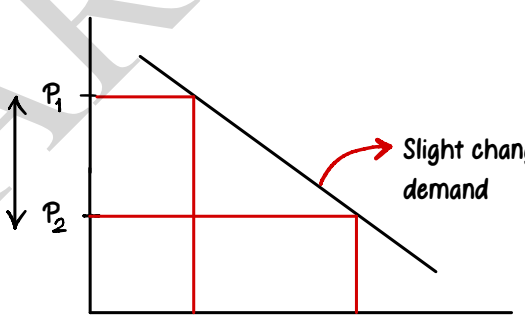
- **Perfectly Elastic Demand**



$e_d = \infty$

- **Relatively Elastic Demand**

eg: gold



$e_d > 1$

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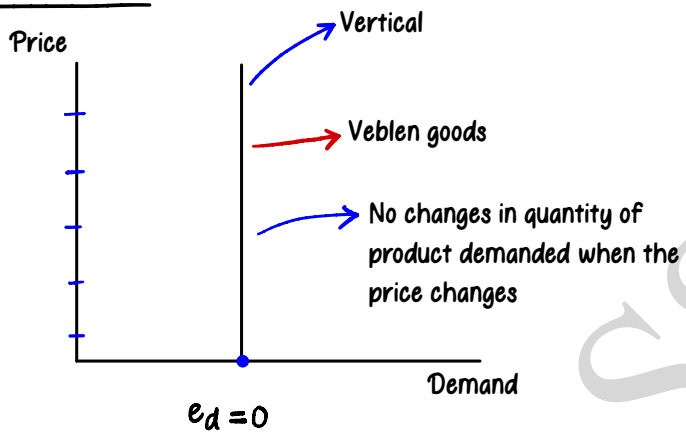
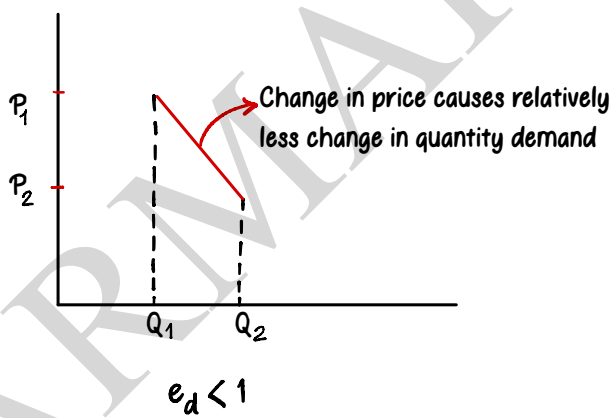
- **Perfectly Inelastic Demand**



- **Relatively Inelastic Demand**



- **Income Elasticity**

Relationship between change in income and demand for certain goods

- Income ↑ Demand ↑ +ve slope
- Income ↓ Demand ↓ +ve slope

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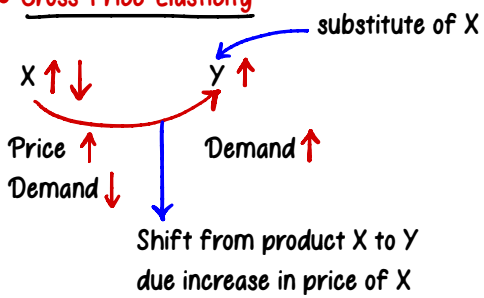
- **Cross Price Elasticity**



- People hold money for three purposes
  1. Transaction motive
  2. Precautionary motive → future
  3. Speculative motive → Receipt expenditure

- Father of Modern Economics: Adam Smith

- **Speculative Motive:** by J M Keynes (Father of Economics)
  - Speculative demand for money → opportunity cost is involved
  - If interest rate is less → People keep more money → Speculative demand high → to keep money with oneself

- Interest rate is high → People will keep less money → Speculative demand less
  Liquidity trap → Rate ↓ Speculative demand perfectly elastic

Types of Market

1. Monopoly
- only 1 seller
- pure monopoly is rare
- Entry barrier

eg: Indian railways

2. Oligopoly

Few dominant sellers

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Many buyers
No easy entry
eg: Telecom sector, laptop market

3. Monopolistic Competition
Many sellers
Many buyers
Similar but slightly different products
eg: Toothpaste

4. Perfect Competition
Many sellers
Many buyers
> selling homogenous products
Free entry and exit
eg: Agricultural products

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INFLATION AND UNEMPLOYMENT

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Inflation

Increase in the general level of prices of goods and services

↓

Purchasing power decreases in case of inflation

- GDP Deflator = $\frac{N}{R} \times 100$

- Irwin Fisher: Money illusion concept

  MV = PT

- During inflation the debtor/borrower benefits more than the lender

Lender → Debtor/Borrower

Rs 10,000

GDP → nominal GDP

GDP → real GDP → adjusted to inflation

Cause of Inflation

Demand Pull

- Demand side inflation
- "Too many dollars chasing too few goods"

Cost Push

- Supply side inflation
- Increase in cost of any factors of production and input cost

Measurement of Inflation

WPI

Wholesale Price Index

More weightage to manufactured goods

↓

does not capture the changes in the prices of services

CPI

Consumer Price Index

More weightage to food items

↓

Checked from consumers perspective

- Services ✓

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WPI → 1st time published: 1942 (pre-Independence)

- Base Year: 2011-12
- Published by: Office of Economic Advisor (OEA)

Ministry of Commerce and Industry

Department of Promotion of Industry and Internal Trade

- RBI uses CPI (combined) to target inflation

CPI

- Base Year: 2011-12
- Published by: National Statistic Office (NSO)

Ministry of Statistics and Program Implementation (MoSPI)

Base Year: 1986-87

CPI: Industrial workers
CPI: Agricultural workers
CPI: Rural workers

Labour Bureau

Ministry of Labour

CPI → Combined
CPI → Urban
CPI → Rural

- Base Year: 2012
- NSO: MoSPI

Types of Inflation

1. Creeping: 3-4%
2. Walking: 4-10%
3. Running: 10-20%
4. Galloping: 20-100%
5. Hyper: 100% →

Disinflation: Rate of inflation is decreasing

10% 8% 7% 5%

Deflation: opposite of inflation

- Fall in the general level of prices
- Purchasing power increases

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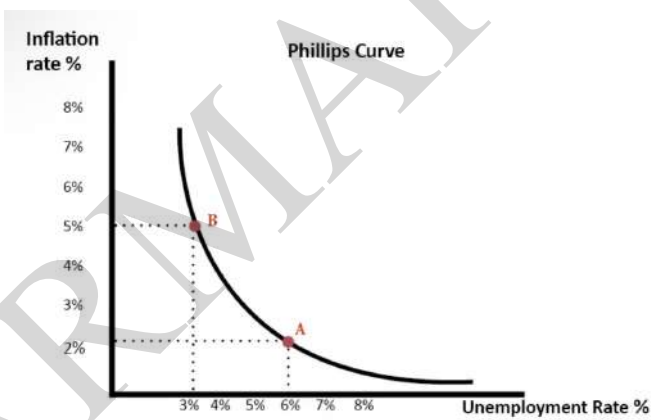
- IIP: Index of Industrial Production
- Base Year: 2011-12
- Published by: NSO (MoSPI)

8 core industries have 40% contributions

1. Refinery products
2. Electricity
3. Steel
4. Coal
5. Natural Gas
6. Cement
7. Fertilizers
8. Crude Oil

- Philips Curve: Inflation↑ and Unemployment↓ have inverse relationship



- Stagflation: Inflation↑ Unemployment↑

Philips Curve ✗

↓

No economic activity

- Great Depression: 1929-39
- Great Recession: 2007-2009

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Types of Unemployment

1. **Structural unemployment:** there is a mismatch between worker's skill and availability of job
eg: technology advancement, like machinery replacing farmer labour
2. **Educated unemployment:** degree → unemployment, seen in Urban part of India
3. **Frictional Unemployment:** type of unemployment while searching for a new job
eg: an employee leaving current job to move to a better one (seen in Urban)
4. **Disguised Unemployment**: Hidden unemployment when some people seem to be employed but are not, marginal productivity is zero
eg: Agriculture sector
5. **Cyclical unemployment:** Recession in economy (upturn and downturn)
When economy revives, there is opportunity to employment, seen in Urban
eg: Great Recession

sub-type

- **Seasonal Unemployment:** Employment based on the seasonal basis
  Seen more rural part of India
  eg: Light or fireworks sellers during Diwali

- When some goods or productive factors are completely fixed in amount, regardless of price, the supply curve is vertical

- The value of the slope of a normal demand curve is negative

- The excess of total expenditure of Government over its total receipts, excluding borrowings, is known as Fiscal deficit

- According to John Maynard Keynes (Father of Macroeconomic) employment depends upon aggregate demand
  → Gave General theory of Unemployment

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MONEY AND BANKING

- Financial activities performed by banks: Banking

- Classification of banks: RBI Act of 1934

1st April 1935: the first setup of RBI
Headquarter: Calcutta, At present
Headquarter: Mumbai in 1937

Reserve Bank of India

Independent body

was established on the basis of recommendation of Hilton Young Commission, 1926

Recommendation taken from B R Ambedkar as well

- 1st RBI Governor: Osborne Smith
- 1st Indian RBI Governor: CD Deshmukh

- Functions of RBI

1. It regulates bank

RBI Act 1934

License CRR/SLR Interest Rate

Banking Regulation Act, 1949

RBI was nationalised on 1st Jan 1949

Regulation power to banking system

2. Currency printing except ₹1 note (under Ministry of Finance)

legal tender → FIAT Money

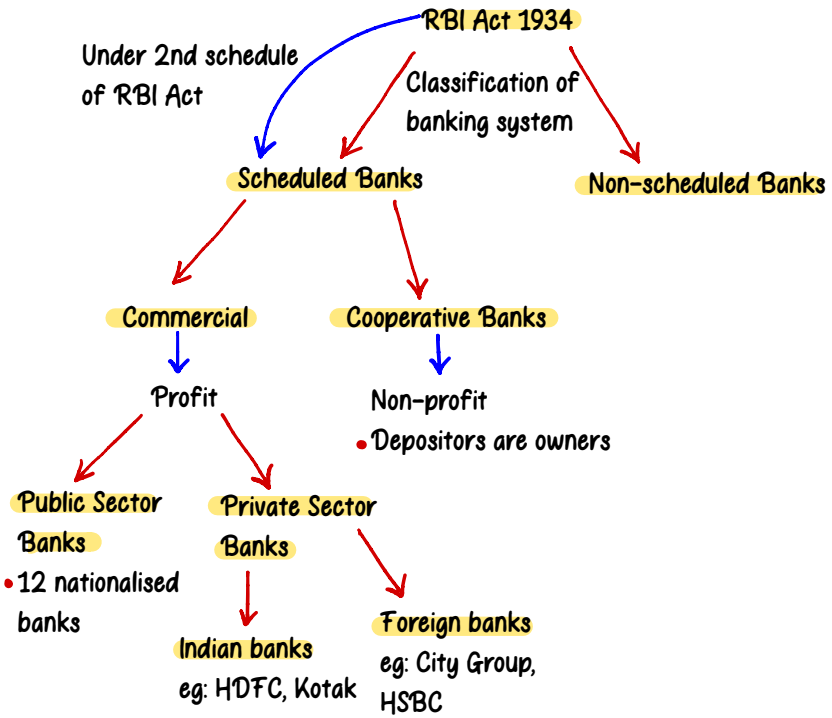
Currency Printing	Coins → GOI – ₹1 note
· Nasik	· Mumbai
· Dewas	· Hyderabad
· Mysore	· Calcutta
· Salboni	· Noida

- Plastic Money: Credit card, debit card, etc.
- Hot Money: Assets such as stocks, deposits, bonds, etc.

Quickly and regularly moves b/w financial markets

3. Monetary Policy

4. Lender of last resort and Bank of Banks



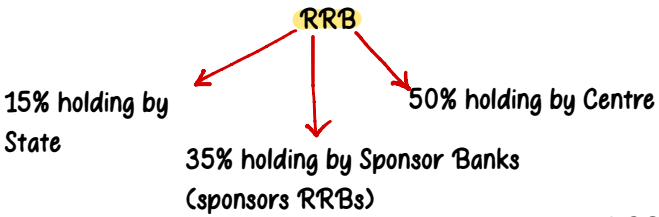
- Nationalisation of Banks in 1969 (14 banks) and 1980 (6 banks)

History of Banking System in India

- 1st bank: 1770 (Bank of Hindustan)
- 1806: Imperial Bank of Calcutta
- 1840: Imperial Bank of Bombay
- 1843: Imperial Bank of Madras

Merged → 1921, Imperial Bank of India → 1955 → State Bank of India

- 1st Indian owned bank: Allahabad Bank, in 1865
- Regional Rural Banks (RRBs): to enhance financial activities in rural areas (RRB Act 1976; Statutory Body)
  eg: Grameen Banks
  1st: Pratham Grameen Bank (2nd Oct 1975, Moradabad, UP)



- SIDBI: 2nd April 1990
  Headquarter: Lucknow

Other Financial Institutions

NABARD: National Bank for Agriculture and Rural Development

- Set up: 12 July 1982, on recommendation of B. Sivaramman Committee (1979)
- Through NABARD Act 1981

Functions:

- Provide finance for agriculture and rural development
- Supervises cooperative banks and RRBs → Regulate → RBI; Supervise → NABARD
- Does not deal directly with people
- Provides financing through PMAY, KCC, Ru Pay Kisan Cards

- Headquarter: Mumbai

National Housing Bank: 1988, through Act of 1987

SEBI: through SEBI Act of 1992 and established on 12th April 1988 → Statutory body

- Headquarter: Mumbai

SEBI: Securities and Exchange Board of India

Function:

- To protect the interests of investors

- Chairman: Madhabi Puri Buch (1st women, 1st non IAS chairman)

- IRDAI: Estd. through IRDAI Act of 1999, as a statutory body April 2000

Insurance Regulatory and Development Authority of India

Micro Finance Institution

- They offer financial services to low income population
  eg: Loan, Savings, Insurance
- Microfinance loans is given to households having income less than ₹ 1.25 lakhs/annum
  - collateral free loan
  - ₹ 3 lakhs max
  - Collateral: mortgage
- Father of Micro Finance system: Muhammed Yunus (Bangladesh)
  - gave concept of Grameen Model Banks, 1970 and was given Nobel Prize
    - Bangladesh Grameen Bank
- 1st Micro Finance institution in India: SEWA Bank (1974)

Business Model of Micro Finance Banks

- Self Help Groups (SHG): group of 10–20 (Min, Max) people come together to find ways to improve their living conditions
- Group of below poverty line (BPL)
- Usually in rural areas

- Joint Liability Group: group of 4–10 people (Min, Max)
  - Could be a small business venture for profit

Informal groups

MUDRA scheme

→ Micro Finance, collateral free loans

- Micro Units Development and Refinance Agency, launched in 2015
- 3 types loan
  1. Sishu: loans upto 50,000
  2. Kishore: loans upto 50,000–5 lakhs
  3. Tarun: loans upto 5 lakhs–10 lakhs

Non-Banking Financial Companies (NBFC)

- Eg: Bajaj Finance, Muthoot Finance, Mahindra and Mahindra
- They are registered under Companies Act of 1956
- Gives loans and advances on gold
- They cannot accept Demand Deposits
- Deposits not guaranteed
- They are regulated by RBI
- They need not maintain CRR and SLR

NBFC-MFI

- Provides micro loans/micro financial services
- Max limit on Microfinance loans other than NBFC MFI → 25% of total assests
- Estd. through recommendation of a committee: Malegam Committee, 2010 (also sees issues of MFIs)
- To qualify for NBFC MFI license they should have at least 75% of assets in Microfinance

- A non-banking financial company cannot seek demand deposits from public and cannot issue cheques

- Payment banks
  - No loan
  - Deposits
    - Max 2 lakhs

MONETARY POLICY

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NDTL: Net Demand and Time Liability (RBI keeps a part of your NDTL as a reserve)

Reserve

Cash Reserve Ratio

- Reserve in the form of: Cash
- Banks do not earn any interest rate on CRR

Statutory Liquid Ratio

- Reserve in the form of: Cash, Gold, G-Sec
- Banks earn interest rate on SLR, profit is obtained

Different Assets and Liabilities of a Commercial Bank

BALANCE SHEET			
LIABILITIES	**AMT**	**ASSETS**	**AMT**
Share Capital (*Initial Money Invested*)		Vault Cash (*Cash kept in Bank for Withdrawal by customers*)	
Loan taken from Central Bank if any (*Sometimes bank borrows money from RBI*)		Deposits with Central Bank (*Amount deposited by Bank with RBI*)	
Demand Deposits (*Saving Account, Current Account*)		Loans (*Loan Given to Public*)	
Term Deposits (*Fixed Deposits/ Recurring Deposits*)		Investment in Government Securities (*Amt invested in Government Bonks*)	
Total		**Total**	

Liability ← Asset

Balance Sheet

Liability

Deposits

Demand Deposits

Savings Account

Current Account

Business

Time/Term Deposits

Fixed Deposit (matures at a certain time)

Recurring Deposits (eg: SIP in mutual funds)

Asset

Loan

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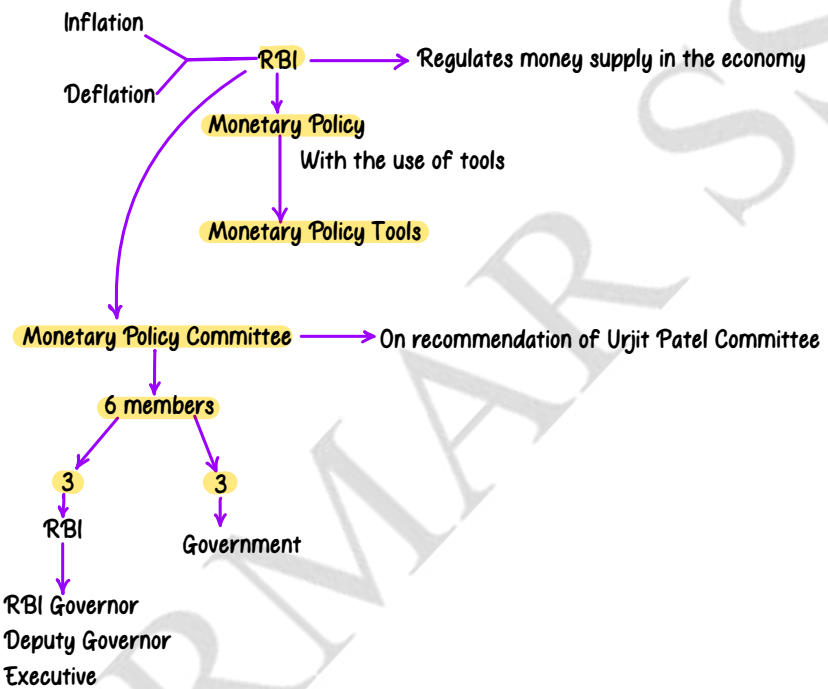
- Liquidity

eg:

1. Cash: more liquid (easily useable)
2. Gold chain
3. Property: least liquid



- Money Multiplier: a maximum amount of new money created by banks for every dollar of reserves

- $MM \downarrow \propto \frac{1}{CRR \uparrow}$

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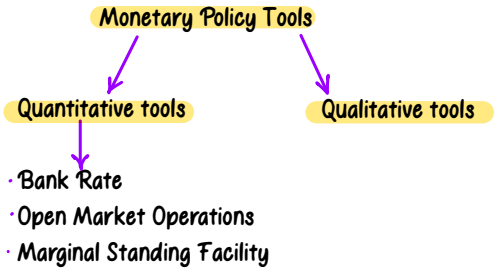
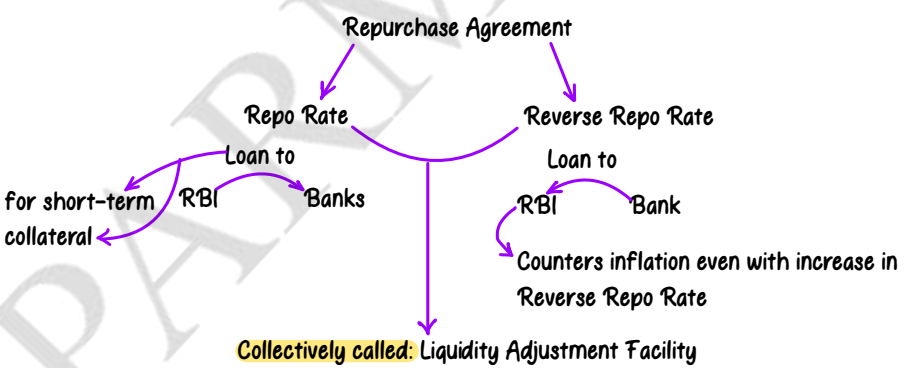


1. **Bank Rate:** RBI provides loan to Commercial Banks (without keeping any securities)
   - 6.75%
   - Loan to: RBI → Banks
     - No collateral
     - For long-term

2. **Open Market Operation**
   - Types
     - Outright purchase
     - Repurchase agreement → G-Sec as Collateral
   - Selling and buying of Government securities → Short term
     - G-Sec ⇄ Cash
   - When inflation is high → selling of G-sec by RBI

* Repo means Repurchase Obligation



3. **Marginal Standing Facility** → 2% NDTL is a limit
   - CRR and SLR is not maintained → Is a "overnight loan"
   - Penalty + loan
   - Can use SLE Quota G-Sec as collateral

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Tools
- CRR
- SLR
- BR
- RR
- RRR

Case 1: During inflation
- CRR, SLR, BR, RRR, RR
- Increase in regulators
- Interest Rates high in order to keep inflation under control

Contractionary/Tight/Dear/ Hawkish Monetary Policy

Case 2: During deflation
- CRR, SLR, BR, RRR, RR
- Reduction in regulators
- Decrease in interest rates

Dovish/Easy/Expansionary Monetary Policy

- **Currency Deposit Ratio** = $\frac{\text{Money held by public in the form of currency}}{\text{Money in the form of Deposits in the Bank}}$

Qualitative monetary policy tools of central bank

This slide shows the four major tools used by central bank of an economy to control credit and inflation. It includes rationing of credit, change in marginal requirements, regulation of consumer credit and moral suasion

Rationing of Credit
- Certain amount is fixed for industrial , household and other purposes
- Credit supply for each commercial bank is fixed
- Add text here

Change in marginal requirements
- Margin is increased for unnecessary sectors
- Margin is decreased for necessary sectors
- Add text here

Regulation of consumer credit
- Instalment amount, down payment, loan duration are all fixed in advance
- Used to control inflation in country
- Add text here
- Add text here

Moral suasion
- Credit limit for each sector is imposed by rules and regulations
- Guidelines and regulations are fixed by central bank for speculative purposes
- Add text here

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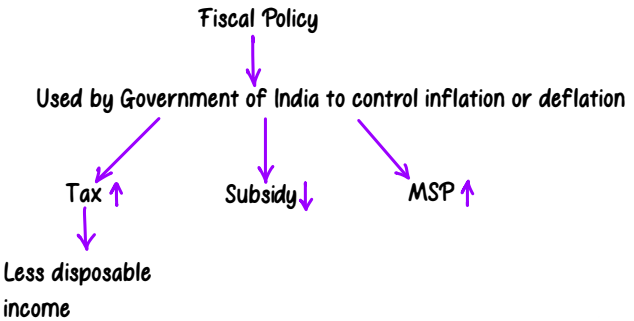
Fiscal Policy
Used by Government of India to control inflation or deflation
Tax ↑
Subsidy ↓
MSP ↑
Less disposable income

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MONEY AND BANKING

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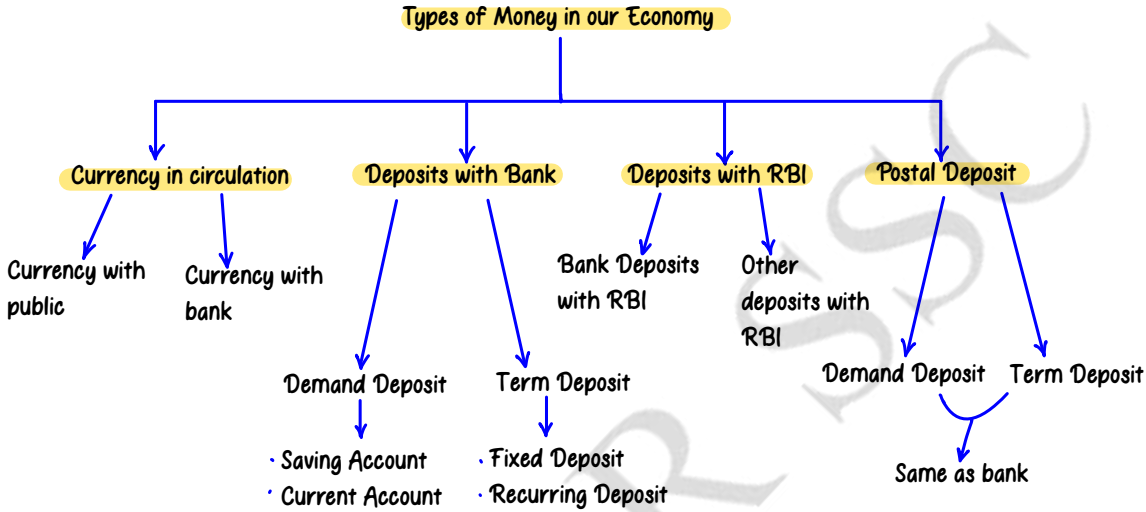

Liquidity in Economics

- **Liquidity:** the ease with which an asset or security can be converted into ready cash without affecting its market price

→ Demand Deposit is more liquid than Term Deposit

- Liquidity: Cash > Cheque > Bonds
  - Cash → Fiat currency
  - Cheque → Fiduciary Money

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Monetary Aggregates

RBI ⟶ to check liquidity ↓ Usable

- Fiduciary money (Mutual agreement)
  Eg: checks, bitcoins

- M_0: Monetary Base/High Powered Money/Reserve Money
  3 components:
  1. Currency in circulation
  2. Bankers deposit with RBI
  3. Other deposits with RBI (eg: deposits of Governmental/Quasi-Judicial authority)

- M_1
  3 components
  1. Currency with public
  2. Demand Deposits
  3. Other deposits with RBI

  → Narrow Money

- M_2: M_1 + Saving deposits with Post Office

- M_3: M_1 + Time deposits with Bank → Actual Money Supply

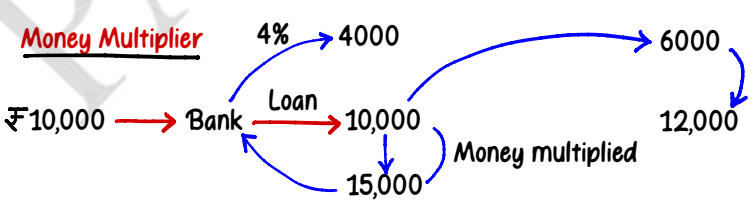
- M_4: M_3 + All deposits with Post Office

  → Broad Money (M_3 → priority)

- Liquidity Order

$M_1 > M_2 > M_3 > M_4$

Money Multiplier



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$$MM = \frac{1}{CRR} = \frac{\text{Money in Circulation}}{\text{Reserve Money}}$$

CRR↓ Money multiply↑
CRR↑ Money multiply↓

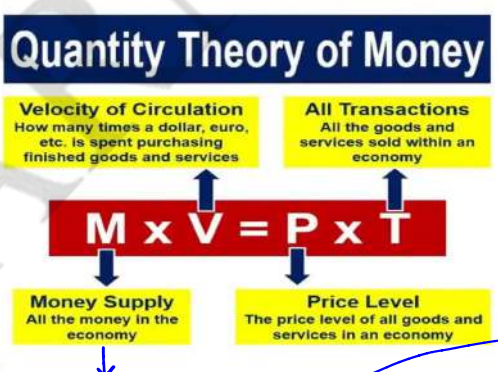
Value of Circulation of Money: No. of hands exchanged

Eg:
₹100 to shopkeeper
→ Loader
→ Books
→ Refreshment

represented as 'V'

QUANTITY THEORY OF MONEY

Theory by Irving Fisher


Quantity Theory of Money
Velocity of Circulation
How many times a dollar, euro, etc. is spent purchasing finished goods and services
All Transactions
All the goods and services sold within an economy
M x V = P x T
Money Supply
All the money in the economy
Price Level
The price level of all goods and services in an economy

When Money Supply↑ keeping other factors constant (Velocity of circulation/transactions) → Price level of goods↑ → purchasing power of money decreases

eg:
Currency printing → Banks

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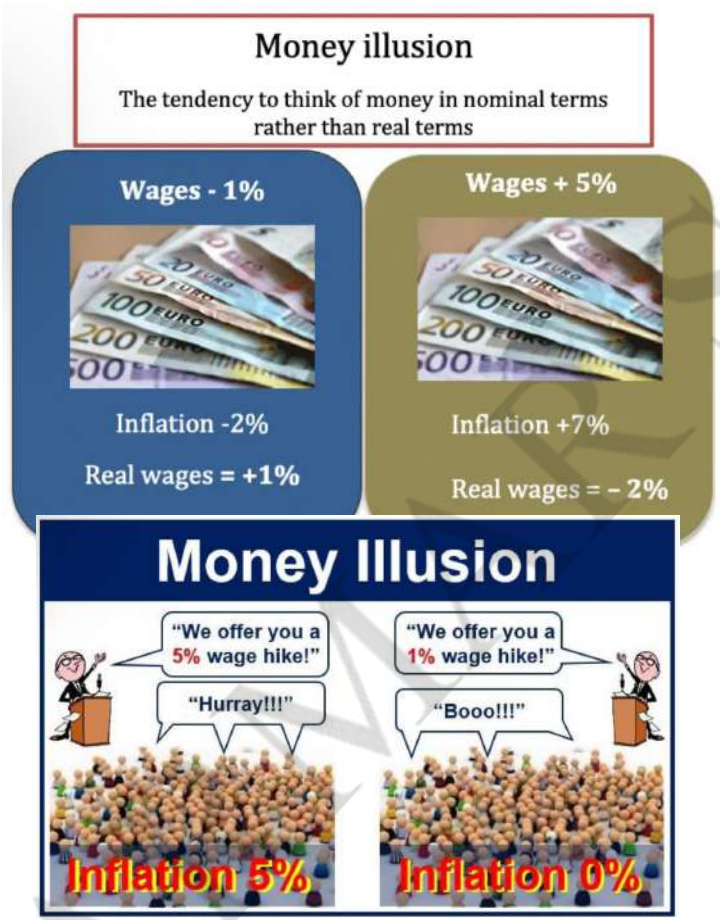
Money Illusion

Given by Fisher



Basel Norms

Basel is a place in Switzerland

Headquarter of Bank of International Settlements (BIS): Basel, Switzerland

130 countries were there when estd.

1930

Basel Committee, 1974 by G10

3 norms

BASEL I: 1988 → India adopted BASEL I in the year 1999

- Focused on Credit Risk
- Min. capital requirement at 8% of Risk Weighted Assets (RWA)

→ Capital Adequacy Ratio

Eg:

	Risk
Salaried employee: 100%	0
Ratan Tata: 90%	10%
Ashneer Grover: 50%	50%
Vijay Mallya: 10%	90%

Microlending

Non-banking Financial Companies-MFI (NBFC-MFI)

Capital Adequacy Ratio: 15% of RWA

- NBFC cannot accept Demand Deposits
- CRR/SLR maintenance: No

- BASEL II: 2004
- BASEL III: 2008

12.9% → Tier 1, Tier 2, Tier 3 → Capital

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LAF: Liquidity Adjustment Facility

- Repo Rate
- Reverse Repo Rate

Liquidity Trap: A situation in economy where people love to hold their money despite of any changes in interest rates which renders any Monetary Policy ineffective

- No spending
- happens when rates will increase
- Speculative Demand: perfectly elastic

- Speculative Demand is generally relatively inelastic

- Rate: Interbank Money Transfer to fulfil their CRR
  - Also called Offer Rate
    - LIBOR: London Interbank Offer Rate base
      - In India: MIBOR (Mumbai Interbank Offer Rate)
    - Removed: 31st Dec 2021
      Now, it's SOFR: Secured Overnight Financial Rate

Money Market

- Short-term loans
  1. Call Money: to be paid within a day
  2. Notice Money: to be paid within 2-14 days

Capital Market

- Long-term loans

Treasury Bills: issued by RBI

- Maturity Bills: less than 1 year

3 types of maturity bills:

1. 91 days
2. 182 days
3. 364 days

- They are always listed on discount rate
- No rate of interest

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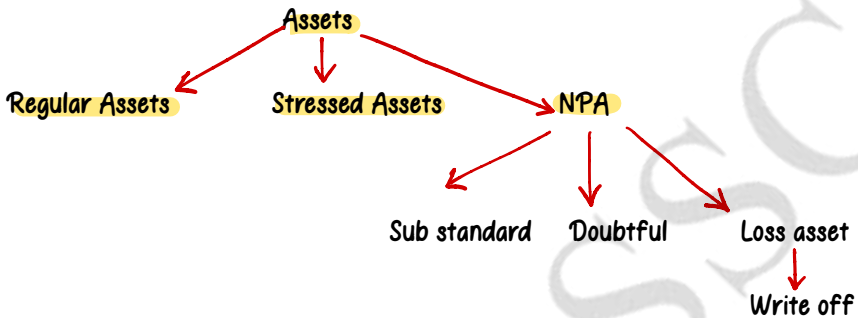
Non Performing Assets (NPA): Delay is more than 90 days



Bad Banks: Financial entity setup to buy NPAs

↓

Recovery of NPAs

2021 budget:

2 bad banks to be established

1. National Asset Reconstruction Company Ltd. (NARCL)
2. India Debt Resolution Company Ltd. (IDRCL)

SARFAESI Act 2002

Full form: Securitisation and Reconstruction of Financial Assets and enforcement of Security Interest Act

- Provides power to the bank/any financial institution to seize the property of a defaulting borrower

- **Wilful Defaulter:** a person who would not pay to banks even if he has the ability to do so

Insolvency and Bankruptcy code, 2016

- Consolidates the existing laws on bankruptcy

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BALANCE OF PAYMENT
&
POVERTY

Poverty

1. **Absolute Poverty**: Severe deprivation of Basic Human needs
2. **Relative Poverty**: Household income lower than the median income
3. **Subjective Poverty**

Poverty Estimation

Pre Independence

- 1st done by: Dadabhai Naroji, gave unofficial poverty line through his book "Poverty and UnBritish Rule in India"
  - Talked about drain of wealth from India
- He made the earliest estimation of poverty

National Planning Committee, 1938 → Subash Chandra Bose
- 1st Chairman: J L Nehru

Bombay Plan, 1944
- It was a set of proposals by influential businessman leaders for the development of India
- ₹75 per capita per year

Post Independence

1. Dandekar and Rath Committee, 1971
- Made the 1st systematic assessment of Poverty
- Used the data of NSSO (National Sample Survey Office)
- Expenditure based poverty line
  - Under MoSPI

2. Alagh Committee, 1979
- Nutrition based poverty line
  - Rural: 2400 Calories
  - Urban: 2100 Calories

3. Lakdawala Committee, 1993
- Poverty line based on CPI-IW, CPI-AW
- State-wise poverty line
  - Rural
  - Urban

*4. Tendulkar Committee, 2009
- Uniform Reference Period → Replaced by → Mixed Reference Period (Health/education)
- Health and Education should also be taken under Basic Needs
- Poverty line based on Purchasing Power Parity: if someone is spending more than ₹33/day (not poor), not more than ₹33/day (poor)

Poverty Line (2011-12)
1. Rural: ₹816/month
2. Urban: ₹1000/month

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- % of people below poverty line: 21.9% (2011-12)

Urban	Rural
13.7%	25.7%

Poverty Ratio: 29.5%
- Urban: 26.4%
- Rural: 30.9%

$$\text{Head count ratio} = \frac{\text{No. of multidimensionally poor people}}{\text{Total Population}}$$

- Head count Ratio: Proportion of Population BPL

5. Rangarajan Committee, 2014
- Created categories within nutritional requirements
  - Calories
  - Protein
  - Fat
- Also, talked about Modified Mixed Reference Period

Balance of Payment
- Record of a Nation's Financial Transaction (import and export)

Current Account (Visible items, Invisible items)
- Goods (visible)
- Services (invisible)
- Transfer payments
- Remittances
  - India is top receiver of remittances (1st)

Capital Account (Borrowing/Lending, Change in Foreign exchange reserve)
- Investments
  - **Foreign Direct Investment**
    - Long-term investment
    - eg: Walmart acquired majority stakes of Flipkart
  - **Foreign Institutional Investors/ Foreign Portfolio Investments**
    - Short-term investments
    - Also called as Hot Money
    - Eg: borrowing, lending, sale/ purchase of assets, NRI deposits

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Current Account Deficit (CAD): 3.3% of GDP (currently)

- Value of imports > Value of Exports

- Twin Deficit: CAD + Fiscal Deficit

Balance of Payment Crisis

- 1991: Balance of payment crisis in India (then PM, P V Narasimha Rao, Manmohan Singh (then Finance Minister)
  - → Empty of FOREX Reserves
  - → LPG Reforms
    - Liberalisation
    - Privatisation
    - Globalisation

FOREX Reserves

1. Foreign currency assets
2. Gold reserves
3. Special Drawing Rights (SDR)

Currencies
- USA
- Euro
- Yen (Japan)
- Yuan (China)
- Pound (Britain)

4. Reserve Tranche Position: required quota to be maintained within the IMF

Debaters in IMF

- 1st: Argentina
- 4th Pakistan

IMF (International Monetary Fund)

- Headquarter: Washington D.C.

- UN Monetary and Financial Conference
  - → Bretton Woods Conference, 1944 → 44 Nations → 730 delegates
    - IMF
    - World Bank
      - → HQ: Washington, D.C.

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- **NOSTRO:** Our account/money in your bank
  Eg: Bank X has an account with Bank Y in Bank Y's home currency

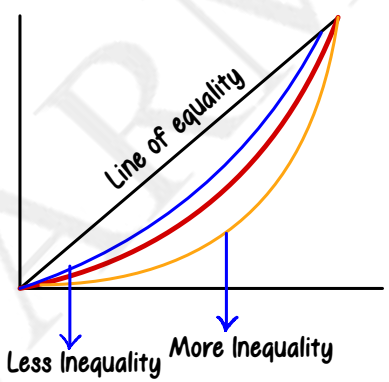
- **VOSTRO:** Your account/money in our bank
  Eg: City Banks partners with HDFC Bank based in India and opens an account with the denoted currency INR

- **FERA:** Foreign Exchange Regulation Act, 1973
  ↓ replaced by
- **FEMA:** Foreign Exchange Management Act, 1999

- **Depreciation:** Decrease in value of domestic currency → Exporters will benefit in case of depreciation
- **Appreciation:** Increase of value of domestic currency → Due to market forces, Floating Exchange Rates

- **Devaluation:** it is Official Depreciation
- **Revaluation:** it is Official Appreciation
  → Government interference, Fixed Exchange Rates

Lorenz Curve: wealth distribution, talks about income inequality



- **Gini Coefficient:**
  0 → 1
  0: perfect equality
  1: perfect inequality

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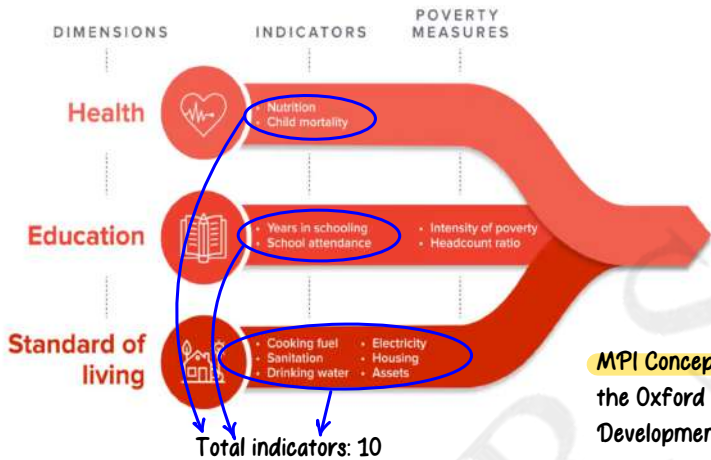

MPI Concept: 2010 by UNDP along with the Oxford Poverty and Human Development Initiative (OPHI)

- **NITI AAYOG launched:** 12 indicators → National Multidimensional Poverty Index

Recently
- Multidimensional Poverty in India since 2005-06
- 24.82 Cr people have escaped poverty
- In Uttar Pradesh max people have escaped poverty

- **Lorez Curve** – Inequality in distribution of income or wealth
- **Phillips Curve** – Inflation and Employment
- **Engel Curve** – Income and proportion of expenditure on food
- **Laffer Curve** – Tax rates and tax revenue

- Gini Coefficient or Gini Ratio can be associated with measurement of income inequality in an economy

- Devaluation of currency will be more beneficial if prices of exports rise proportionately

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FIVE YEAR PLAN AND INDUSTRIAL POLICY RESOLUTION

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Five Year Plans

Post Independence, 1947

Taken from: USSR → Introduced in 1928 by Joseph Stalin

Introduction in India

Planning Commission → Chairman: PM

1. 1st Five Year Plan, 1st April 1951 → Based on Harrod-Domar Model

- Duration: 1951-56
- Key Focus: Primary Sector
- Agriculture → During Jawaharlal Nehru
  - Setting up Dams to promote the growth of Agriculture
    - Bhakra Nangal Dam
    - Hirakud Dam
    - Nagarjuna Sagar Dam
- Target: 2.1%
- Achieved: 3.6% (Fully successful)
- On his birth anniversary 29 June: Statistics Day
- Founded: Indian Statistical Institute, Kolkata

2. 2nd Five Year Plan → Based on P.C. Mahalanobis Model

- Duration: 1956-1961 → During Jawaharlal Nehru
- Key Focus: Public Sector
- Rapid Industrialisation → Industrial Policy Resolution, 1956 (2nd IPR)
- Target: 4.5%
- Achieved: 4.27% (Moderately successful)

1. Rourkela Steel Plant: Odisha (Germany)
2. Durgapur Steel Plant: West Bengal (UK)
3. Bhilai Steel Plant: Chattisgarh (USSR)

3. 3rd Five Year Plan → Based on Gadgil Formula

- Duration: 1961-66
- Key Focus:
- Self reliant and Self generating economy
- Target: 5.6%
- Achieved: 2.8% (failure)
- China War: 1962
- Indo-Pak: 1965
- PL-480: India was importing wheat from USA
- FCI: 14 Jan 1965
- CACP: 1 Jan 1965
- IDBI: 1 July 1965
- UTI: 1963

Break: Plan Holiday

- 3 years: 1966-69
- Annual Plan → New agricultural strategy

Two Prime Ministers

- J L Nehru
- Lal Bahadur Shashtri → Raised the slogan "Jai Jawan Jai Kisan" when India went to war with Pakistan

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4. 4th Five Year Plan → Gadgil Formula/Rudra Allen Model

- Duration: 1969–1974
- PM: Indira Gandhi
- Growth with stability
- Progressive achievement of self reliance
  1. Family Planning
  2. 14 banks nationalisation
  3. Underground nuclear test: Smiling Buddha

- Target: 5.6%
- Achieved: 3.3% (a big failure)

1971
- Indo-Pak War
- Bangladesh

5. 5th Five Year Plan → Based on D.P. Dhar Model

During Indira Gandhi

- Duration: 1974–78

Key focus:

1. Removal of poverty (Garibi Hatao)
2. Attainment of self reliance
3. Minimum Needs Programme (1974)
   - Basic needs to be provided to all
   - 20 points programme (1975)
4. RRBs were setup (1975)

- Target: 4.4%
- Achieved: 4.8% (a bit successful)

Rolling Plan were introduced → During Janta Govt./Morarji Desai

- Duration: 1978–80

Key focus:

- Emphasis was on employment

6. 6th Five Year Plan → During Indira Gandhi

- Duration: 1980–85

Key focus:

1. National Income
2. Modernisation of technology
3. Unemployment
4. Established NABARD (12 July 1982)
5. Landless Labour Employment Guarantee Programme (RLEGP) on 15 August 1983

- Target: 5.2%
- Achieved: 5.7% (Successful)

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7. 7th Five Year Plan → During Rajiv Gandhi

- Duration: 1985–90

Key Focus:

1. Food grain production — Food
2. Employment opportunities to be generated — Work
3. Productivity — Productivity

- Target: 5%
- Achieved: 6% (very successful)

Hindu Rate of Growth, 1978

- Concept by: Prof. Raj Krishna
- India from 1960–80 has seen slow economic growth

→ Annual Plan: 1990–92

8. 8th Five Year Plan → P V Narasimha Rao

- Duration: 1992–97
- 1991 → Balance of Payment Crisis
- 1991 — Liberalisation, Privatisation, Globalisation → Annual Plans
- 1992

Key Focus:

1. New Indicative Policy
2. Economic and Fiscal Reforms
3. Share of public sector declined

↓

Licence Raj ended

- Target: 5.6%
- Achieved: 6.8% (highly successful)

9. 9th Five Year Plan → During Atal Bihari Vajpayee

- Duration: 1997–2002
- Growth with social justice and equality

- Target: 6.5%
- Achieved: 5.4%

10. 10th Five Year Plan → By Atal Bihari Vajpayee and Manmohan Singh

- Duration: 2002–2007
- Target: 8%
- Achieved: 7.6%

National Horticulture Mission (NHM) was promoted by govt.

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11. 11th Five Year Plan → During Manmohan Singh

- Duration: 2007–2012

Key Focus:

- Towards faster and more inclusive growth
- Target: 9%
- Achieved: 8%

12. 12th Five Year Plan → During Manmohan Singh 2014

- Duration: 2012–2017

Key Focus:

- Towards faster, inclusive, and sustainable growth

NITI AAYOG → In place of Planning Commission

- Setup on: 1st Jan 2015
- It is a Think Tank of govt.
- Publishes reports
- Vision Document

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Industrial Policy Resolution

1st IPR, 1948 (Main person: Dr. Shyama Prasad Mukherjee)

- Govt. monopoly (Atomic Energy, Railways, etc.)
- License Raj Begining

2nd IPR, 1956

- Also known as economic constitution of India
- Industries diversification

  - Schedule A: Govt. Sector (17)
  - Schedule B: Govt. + Private sector (12)
  - Schedule C: only private sector (remaining)

3rd IPR 1977: extension of 1956 policy

- Major focus on Decentralisation
- It gave priority to small scale industries → called Tiny Unit
- Imposed restrictions on MNCs

4th IPR 1980

- FERA Act, 1973
- Started Monopolistic and Restrictive Trade Practices (MRTP Act)

5th IPR 1991: New Industrial Policy — L P G

- FDI ceiling increased
- Disinvestment of Public Sector
- End of License Raj

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Marginal Propensity to Consume

$$MPC = \frac{\Delta C \rightarrow \text{Consumption}}{\Delta I \rightarrow \text{Income}}$$

$0 < MPC < 1$

The proportion of an aggregate raise in a pay that a consumer spends on the consumption of goods and services as opposed to saving it

$$\text{Money Multiplier} = \frac{1}{1 - MPC}$$

→ Multipliers will be lower with low marginal propensity to consume

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